

FORMAL SESSION

10 - 1 - 19.

**BUDGET,
FINANCE, AND
AUDIT STANDING
COMMITTEE**



**OFFICE OF CONTRACTING
AND PROCUREMENT**

September 25, 2019

HONORABLE CITY COUNCIL:

The Purchasing Division of the Finance Department recommends a Contract with the following firm(s) or person(s):

3037473 100% City Funding – To Provide Printing Services for Property Tax Exemption Flyers. – Contractor: Accuform Printing & Graphics, Inc. – Location: 7231 Southfield Road, Detroit, MI 48228 – Contract Period: Upon City Council Approval through October 31, 2019 – Total Contract Amount: \$69,432.00.
ASSESSOR

Respectfully submitted,

Boysie Jackson, Chief Procurement Officer
Office of Contracting and Procurement


BY COUNCIL MEMBER **AYERS**

RESOLVED, that Contract No. 3037473 referred to in the foregoing communication dated September 25, 2019, be hereby and is approved.

David Whitaker, Esq.
Director
Irvin Corley, Jr.
Executive Policy Manager
Marcell R. Todd, Jr.
Senior City Planner
Janese Chapman
Deputy Director

John Alexander
LaKisha Barclift, Esq.
M. Rory Bolger, Ph.D., AICP
Elizabeth Cabot, Esq.
Tasha Cowen
Richard Drumb
George Etheridge
Deborah Goldstein

City of Detroit
CITY COUNCIL
LEGISLATIVE POLICY DIVISION
208 Coleman A. Young Municipal Center
Detroit, Michigan 48226
Phone: (313) 224-4946 Fax: (313) 224-4336


Christopher Gullock, AICP
Derrick Headd
Marcel Hurt, Esq.
Kimani Jeffrey
Anne Marie Langan
Jamie Murphy
Carolyn Nelson
Kim Newby
Analine Powers, Ph.D.
Jennifer Reinhardt
Sabrina Shockley
Thomas Stephens, Esq.
David Teeter
Theresa Thomas
Kathryn Lynch Underwood
Ashley A. Wilson

TO: Detroit City Council

FROM: David Whitaker, Director
Legislative Policy Division

DATE: September 23, 2019

RE: Report on Casino Gaming Bills, HB 4311, HB 4312 and HB 4323

The Legislative Policy Division (LPD) has been requested to provide a report on the proposed House Bills 4311, 4312 and 4323 relative to authorizing internet gaming and setting a tax rate for the internet gaming industry in Michigan. We have learned from both the House Fiscal Agency as well as the City's lobbyist Ken Cole that these bills are currently under new negotiations in Lansing, primarily by the State administration who would like to see a more favorable return on the proposed internet gaming for the State's treasury. It is not believed that this legislation or possibly any renegotiated legislation will be passed during this session. This legislation currently only deals with internet gaming, not sports betting and it is anticipated that additional legislation will cover that at a later date.¹

Brief Summary

In general the three proposed bills set forth the following: HB 4311 authorizes the establishment of internet gaming and sets forth the requirements for eligibility, licensing, taxing of internet gaming, creates an internet gaming fund and provides for civil sanctions and criminal penalties for violations of the act; HB 4312 would amend the Michigan Code of Criminal Procedure MCL 777.14d by placing the maximum term of imprisonment for a felony violation of the Internet Gaming Act within the sentencing guidelines; and HB 4323 would amend the Michigan Penal Code MCL 750.1 et, al by adding §310d exempting gambling conducted under the Lawful Internet Gaming Act from the provisions of the penal code. All three bills are tie barred, one bill cannot take effect unless the bill to which it is tie barred is also enacted.

¹ Nevertheless, PLD has elected to fully respond to City Council's request

While proponents of the bills believe that internet gaming will generate new revenues to the State and cities where the internet gaming license is located, the House Fiscal Agency's review of the bill indicated a potential loss of revenue may occur with regard to the current brick and mortar casinos (Casinos) if internet gaming is allowed as detailed in the proposed legislation. The revenue reduction is possible if the number of Casino gamers begin using internet gaming instead of patronizing Casinos and the fact that internet gaming is taxed at 8% where Casino gaming is taxed at 19%. The bill does attempt to provide a remedy for potential loss of revenue to cities that currently have Casino gaming by making up the difference between the combined revenue (casino tax revenue and internet gaming tax revenue) a city generated in a prior fiscal year and \$179,000,000.00 to be paid for from the internet gaming revenue fund. (See further fiscal analysis in the report).

Proposed HB 4311 Lawful Internet Gaming Act

The proposed HB 4311 Lawful Internet Gaming Act, provides in detail the method in which internet gaming will be lawfully conducted. The pertinent provisions of the bill are set forth below.

The proposed HB 4311 (Bill) set forth the requirements for persons to engage in internet gaming. Internet gaming under the bill is defined as a game of skill or chance that is offered for play through the internet in which an individual wagers money or something of monetary value for the opportunity to win money or something of monetary value. The person who chooses to engage in lawful internet gaming must do so with an "internet gaming operator" who is issued an internet gaming license from the internet gaming "division" as set forth under Section 5.² The Division is authorized to issue internet gaming license to an applicant that is either of the following:

- a) A person that holds a casino license under the Michigan gaming control and revenue act, MCL 432.201 to 432.226.
- b) An Indian tribe that lawfully conducts Class III gaming in a casino located in this state under a facility license issued in accordance with a tribal gaming ordinance approved by the chair of the National Indian Gaming Commission.

Under the proposed Bill an internet gaming operator license can only be issued to applicants who currently hold a casino license or an Indian tribe that lawfully conducts Class III³ gaming in the State of Michigan. The license for an internet gaming operator is valid for a period of five (5)

² The Internet Gaming Division is to be established under the Michigan Gaming Control Board and is authorized to administer, regulate and enforce the system of internet gaming established by the act. The Division may enter into agreements with other jurisdictions to facilitate, administer and regulate multijurisdictional internet gaming consistent with state and federal laws and gaming in the United States. The Division has jurisdiction over and shall supervise all internet gaming operations as set forth under Section 9

³ Class III gaming is defined as determined in 25 USC 2703 which includes any games that are not classified as Class I (social games solely for prizes of minimal value or traditional forms of Indian gaming engaged in by individuals as a part of, or in connection with, tribal ceremonies or celebrations) or Class II (i) the game of chance commonly known as bingo (ii) card games that (I) are explicitly authorized by the laws of the State, or (II) are not explicitly prohibited by the laws of the State and are played at any location in the State.

years after the date of issuance and is renewable for additional five (5) year periods. An initial application for an internet gaming operator license must be accompanied by a \$100,000.00 application fee which shall be applied as set forth under the rules promulgated pursuant to Section 10. An internet gaming operator shall pay a license fee of \$200,000.00 to the division at the time of the initial internet gaming license is issued and \$100,000.00 each year after the initial license is issued. The application fee and license fees paid shall go into the Internet Gaming Fund established under Section 16.

A licensed internet gaming operator must conduct internet gaming operations and offer internet gaming from an “Internet gaming platform”⁴. The internet gaming platform to be used by an internet gaming operator for internet gaming can only be supplied by a licensed “internet gaming vendor”⁵. The Division may issue an internet gaming vendor license to a person who provides goods, software, or services to internet gaming operators. Only a licensed internet gaming vendor can be the provider to an internet gaming operator. The vendor license is valid for a period of five (5) years and is renewable for additional five year periods. The application for an internet gaming vendor’s license must be accompanied by a nonrefundable application fee not to exceed \$5,000.00. A license fee of \$5,000.00 shall be paid for the initial year of the license and \$2,500.00 for each year after. However, if the internet gaming vendor provides all or substantially all of the internet gaming platform the vendor must pay a fee of \$100,000 at the time the initial license fee is issued and \$50,000 each year thereafter. Similar to the application and license fee of the internet gaming operator, the application fee and license fees of the internet gaming vendor shall be deposited into the Internet Gaming Fund.⁶

Pursuant to Section 10, the Division shall within one (1) year of the effective date of the act, promulgate rules governing the licensing administration, and conduct of internet gaming. In addition, the Division shall promulgate rules in accordance with the Administrative Procedures Act MCL 24.201 to 24.328, which may include only things expressly authorized by under the act, including but not limited to, the types of games to be offered (which must include but not be limited to, poker, blackjack, cards, slots, and other games typically offered at a casino); qualifications, standards, and procedures for approval and licensure; requirements to ensure responsible gaming; technical and financial standards for internet wagering, internet wagering accounts, internet gaming platforms, systems and software; and requirements for multijurisdictional agreements.

The Bill under Section 11, includes provisions that indicate the internet gaming operator must require the internet gaming vendor who provides the gaming platform mechanisms designed to verify a participant is 21 years of age or older. It requires mechanisms designed to detect and prevent fraud, money laundering and collusion. The internet gaming operator must require the internet gaming vendor to provide on the gaming platform clear and conspicuous evidence of the internet gaming license issued under the act. The internet gaming operator cannot conduct internet gaming until one year after the effective date of the act.

⁴ Internet gaming platform is defined as an integrated system of hardware, software, and servers through which an internet gaming operator operates, conducts or offers internet gaming

⁵ An internet gaming vendor is defined as a person that provides to an internet gaming operator goods, software, or services that directly affect wagering, play and results of internet games offered under the act.

⁶ The proposed bill provides that an institutional investor (as defined under the bill and includes but is not limited to a retirement fund administered by a public agency for the benefit of public employees) are not subject to the licensure requirements.

The Bill under Section 13(1)(a) indicates a person shall not offer internet gaming for play in the state if the person is not an internet gaming operator unless exempted from the act under Section 4(4)⁷. A person who violates this subsection is guilty of a felony punishable by imprisonment for not more than ten (10) years or a fine of not more than a \$100,000 or both. The attorney general or a county prosecutor may bring an action to prosecute a violation of subsection (1)(a).

Internet Gaming Tax

The Bill under Section 14 provides the manner in which internet gaming is subject to taxation. Unlike the wagering tax structure for Casino gaming operations which are taxed at 19% of the adjusted gross receipts (AGR). Of this 19% the City receives 10.8%.⁸ Under the Bill, the internet gaming gross revenue received by the internet gaming operator is subject to a tax of 8%. Of this 8% the City would receive 30%, or 2.4% of the gross revenues. The City would also be authorized to charge a 1.25% fee on the gross revenues of an internet gaming operator that holds a casino license in that city. Therefore, in addition to a city's receipt of 2.4% internet gaming revenue tax, additional revenue can be obtained by a 1.25% municipal fee and any existing development agreement that includes internet gaming revenues as part of the AGR.

Section 15 indicates that the thirty percent to the city in which internet gaming licensee's casino is located, for use in connection with the following:

- (i) The hiring, training, and development of street patrol officers in that city.
- (ii) Neighborhood development programs designed to create jobs in that city with a focus on blighted neighborhoods.
- (iii) Public safety programs such as emergency medical services, fire department programs, and street lighting in that city.
- (iv) Anti-gang and youth development programs in that city.
- (v) Other programs that are designed to contribute to the improvement of the quality of life in that city.
- (vi) Relief to the taxpayers of the city from 1 or more taxes or fees imposed by the city.
- (vii) The costs of capital improvements in that city road repairs and improvements by the city.

Subsection 15(2) indicates that by December 31, 2020 and each December 31 thereafter, if the tax revenue received in the preceding fiscal year by a city from an internet gaming operator's licensee's casino combined with the money received from the 2.4% of internet gaming revenue tax is less than \$179,000,000.00, the board shall distribute from the fund to the city in which the

⁷ Section 4(4) provides that the act does not apply to lottery games offered by the State under MCL 432.1 to 432.47; Class II and Class III gaming conducted on Indian lands by an Indian tribe as approved by the tribal gaming ordinance and the chair of the National Indian Gaming Commission; and a fantasy contest conducted under the fantasy contests consumer protection act.

⁸ In addition to the 19% wagering tax on AGR the Detroit Casinos pay a municipal service fee and development agreement payment based on AGR which is not a part of the wagering tax calculations. The City is authorized under MCL 432.213 to impose a municipal service fee of 1.25% of AGR or \$4 million (whichever is greater) in addition to any development agreement payment as set forth in the agreement.

internet gaming operator's licensees casino is located an amount equal to the difference. This provision is designed to make up for any potential shortfall that may possibly be created by the casino operator implementing internet gaming. However, the amount a city can receive from the internet gaming fund cannot exceed the 55% of the total tax imposed under section 14 in the fiscal year deposited into the fund. The House Fiscal Agency provided a legislative analysis on the possible short fall that could occur in casino wagering if the internet gaming bill was passed as currently constructed.

The State House Fiscal Agency, the report is attached, is currently reporting that the above referenced bills will have a negative impact on both the State's and the City's gaming revenue due to the belief that internet gaming will turn gamers away from the bricks and mortar casinos. What the State is additionally concerned with and possibly more so is the loss of online lottery gaming to this new internet gaming options. This is thought to negatively impact the School Aid Fund.

While many proponents of these bills have likened the potential revenue upsides to the experience that New Jersey has had since introducing online gaming, the State is concerned that it may be too optimistic since they do not believe Michigan is as similar. The state considers ~ proximity to other major population centers in neighboring states, and other concerns dissimilar to the Michigan gaming climate.

The City's Lansing lobbyist was able to negotiate with the bill sponsors and include a floor that the City would be able to collect of \$179 million which had been the calendar year collections in 2017 when the bill was written. So in fact if between what the City would collect through both the bricks and mortar casinos and the internet gaming revenue was less than \$179 million the State would make up the difference out of the portion of the revenue (55% of the 8%) to go into the Internet Gaming Fund. However the most the City could receive would be 55% of the total tax imposed in the fiscal year. We would suggest that the City advocate for the floor to be a fluid number that represents the collections from the last calendar year prior to internet gaming coming online, with a 1% growth factor for each subsequent year to better reflect the revenues that the City has seen from the casinos.

However, just reviewing the data from New Jersey since 2015, we have attached two charts that show slow but positive growth since 2015 in the "bricks and mortar" casino revenue as the internet gaming has also continued to grow. Additionally, we have attached a power point presentation from the Spectrum Gaming Group done in concert with the UMass Donahue Institute, Economic Policy and Research Team. Their perspective is that online gaming brings a different group of people who most likely would not be a part of the "bricks and mortar" gaming experience.

Our office is available to assist with any questions, or we suggest that a call to the City's lobbyist with specific issues would also be beneficial.

Chart 1 - Monthly Casino Gaming Since Online Gaming By Year - New Jersey

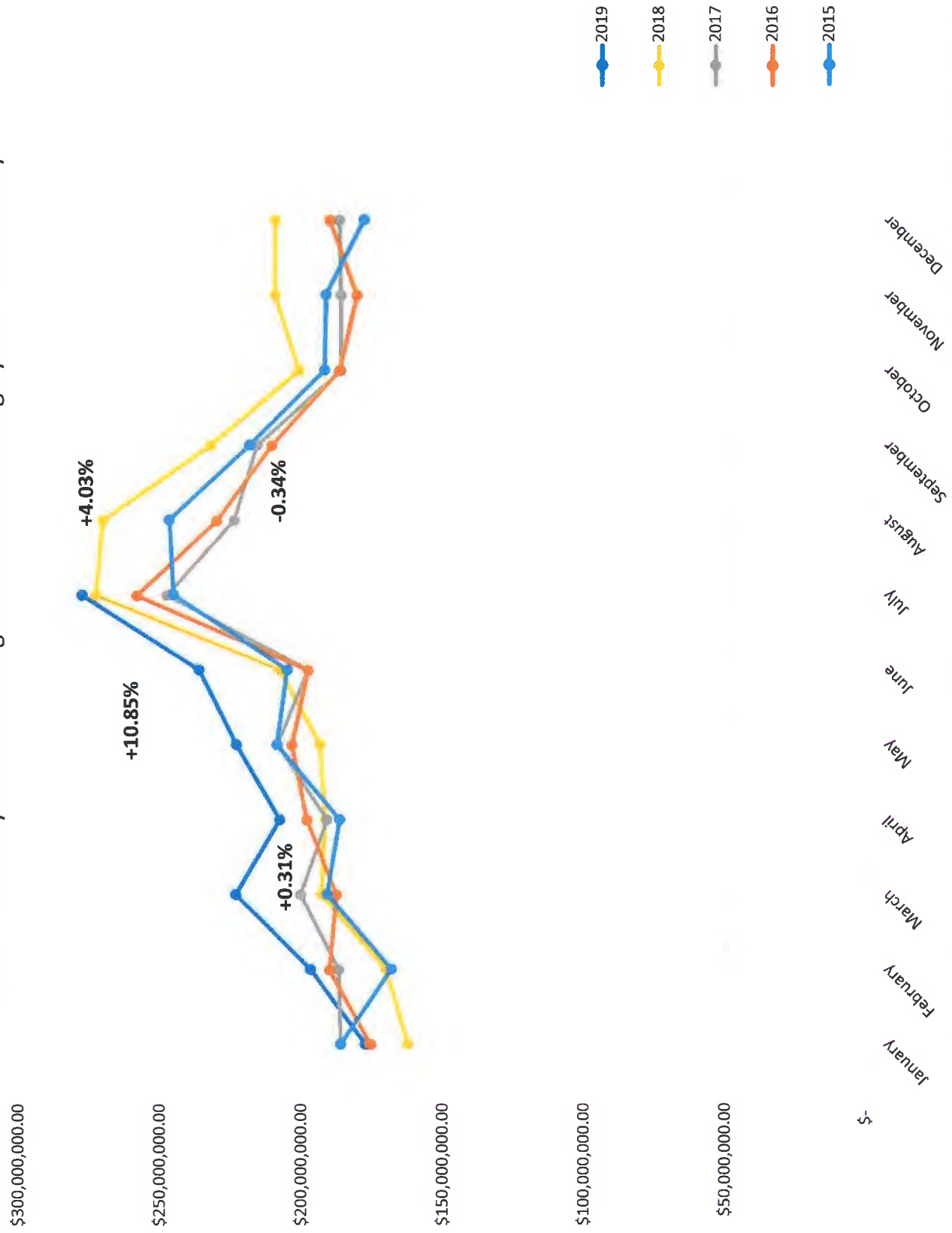
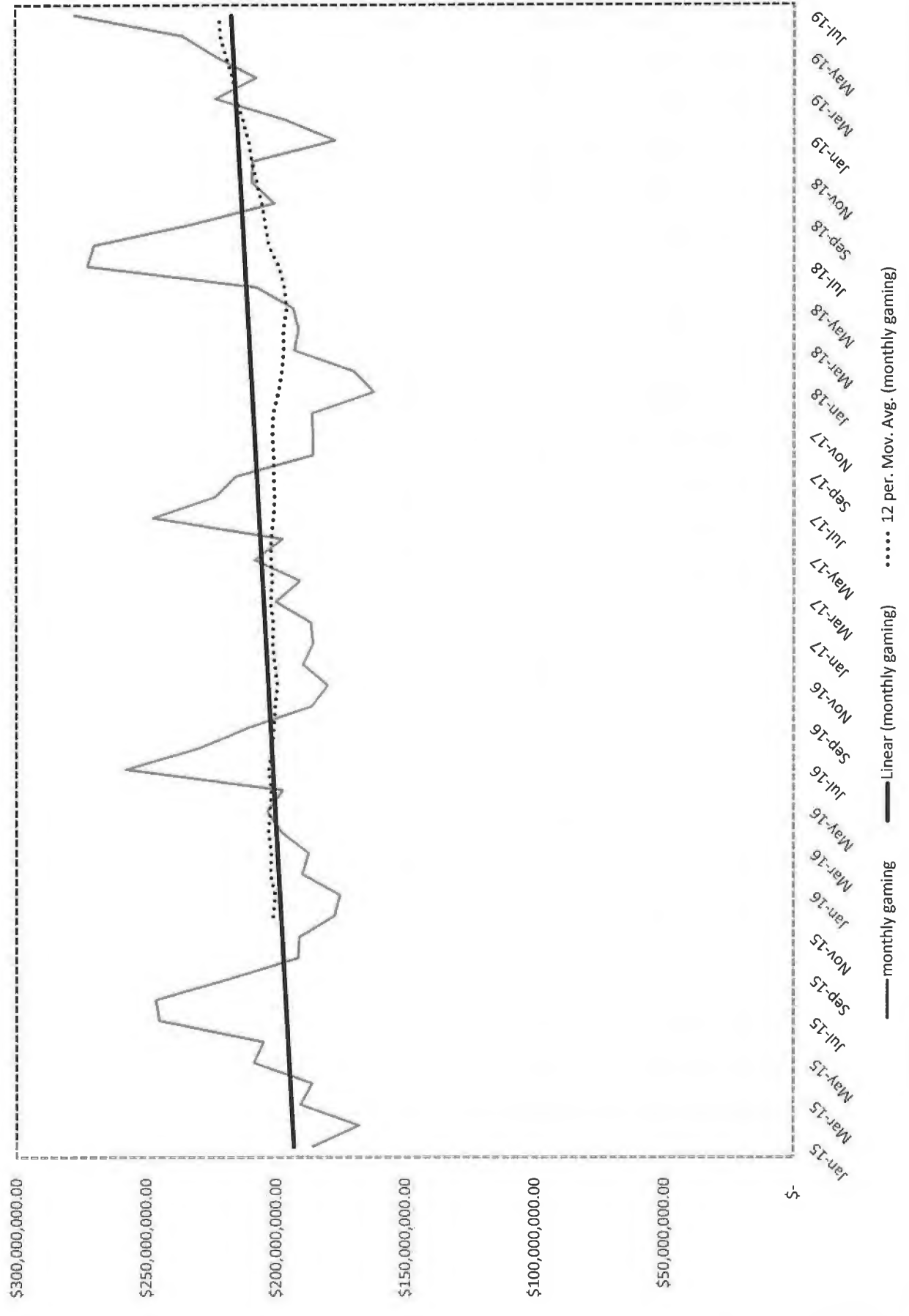


Chart 2 -Trend of Monthly Gaming since Online Gaming - New Jersey





SPECTRUM
GAMING GROUP

Independent Research and Professional Services

REMI Webinar: Understanding future of online, land-based gaming

September 20, 2017

SIGHT: Spectrum Internet Gaming Heuristic Theorem

- Developed 15 years ago
- Based on principle that online gaming in US should evolve to benefit of land-based operators
- Key assumption: Casino operators in US would move from rejection of online to acceptance to embrace
- Most operators have reached acceptance, presently approaching embrace

Past is Prologue

- Radio vs. baseball
- TV vs. Hollywood



Radio vs. Baseball

“When radio came along and began to broadcast some baseball games, some of the entrenched conservative owners said, ‘Wait a minute. Why give away something that you’re trying to sell for your living, to try and keep your enterprise afloat? And especially on days of threatening weather when people would say, ‘Well, it looks like it may rain. I’ll just listen to the radio. I won’t go.’ They did not realize at the time the beneficial effect of radio, that it would be making families of fans.”

- From the documentary *Baseball*,
Geoffrey C. Ward and Ken Burns quoting broadcaster Red Barber

TV vs. Hollywood

- Major studios were threatened by TV, as viewers could be entertained at home
- TV evolved, studios adapted:
 - Hollywood became major TV producers
 - TV presented marketing opportunities for films
 - TV became important secondary market for films

Common Thread

- Technology did not alter social aspects of spectator sports or movie theaters
- Technology will not alter social aspects of visiting brick-and-mortar casinos



Photo: Caesars Atlantic City

Online Gaming in United States

- Demands new business model resting on foundation of long-established and large, brick-and-mortar gaming industry
- Online gaming policy needs to consider more than 1,000 casinos generating more than \$70 billion in annual revenue



Immutable Laws of Human Nature

- People are hard-wired to enjoy games of chance and to take reasonable risk, regardless of decade in which they were born
- People are hard-wired to enjoy social settings, and to seek entertainment experiences with other adults



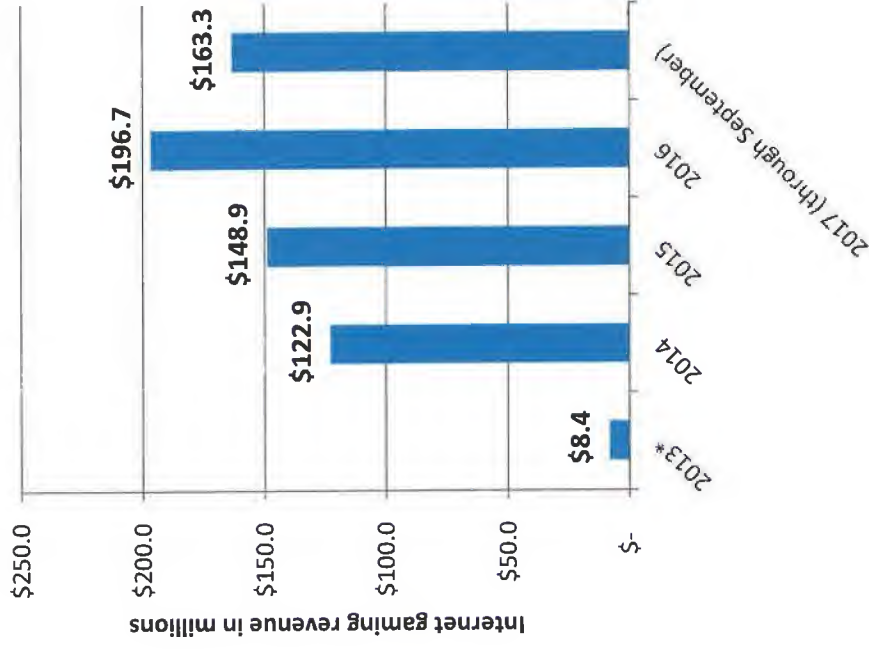
Online Gaming in US Should be Developed in Concert with Land-Based

- Not simply as new revenue stream
- Important marketing tool to reach new demographics in new way that would increase both online and land-based revenue

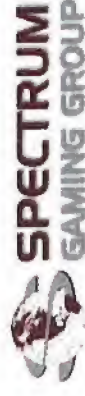


Vindication in New Jersey

- Online gaming is growing
- New demographics, new players
- Increased visits, spending at land-based casinos
- Strengthening brand recognition and loyalty while customer is off-property



*Internet gaming began in NJ 11/26/13



Caesars Experience: Online as Marketing Channel

- At a March hearing in Pennsylvania, Caesars Entertainment noted:
 - ‘(The) poker market in land-based casinos has grown since the onset of online poker.’
 - ‘Offline poker revenues have grown since the inception of online poker.’
 - Though its Total Rewards marketing program, Caesars notes that:
 - 80% of its online players are new customers
 - Of players in Total Rewards database, 42% of those who played online were inactive prior to offering of online play and then reactivated after online signup

Tropicana Experience

- 60% of players who signed up for online were not previously enrolled in database
- Of remaining 40%, half were inactive or lapsed: had not generated any tracked play at Tropicana in previous 12 months



Golden Nugget Experience

- Only 11% of online signups have come from Golden Nugget Atlantic City rated patrons
- Of those, only 8% were active at Golden Nugget Atlantic City in 12 months prior to online signups



SugarHouse Experience

- ‘Our online players in NJ are, on average, 8 to 10 years younger than those players visiting SugarHouse’s physical facility.’

- Richard Schwartz, President of Rush Street Interactive,
iGaming Business North America, Issue 30



Does Online Play Cannibalize Land-Based Play?

- Tropicana customers who played both online and land-based *increased* their total land-based spend, as well as their frequency of visitation
- The 8% of active Golden Nugget players who sign up online have increased their spend at Golden Nugget 15% after signup

Land-Based Operators have Advantage

- Well-known brands associated with entertainment experience, as well as with gaming integrity, i.e., players know intuitively that their games are honest
- Established player loyalty programs easily redeemed for entertainment options, including free rooms, show tickets and dining experiences
- Existing compliance process tailored to US regulatory environment

Option 1 for Legislators across US

- Adapt online for benefit of their land-based operators
- View online as marketing tool, as well as revenue stream
- Measure fiscal impact in wider perspective



Option II for Legislators across US

- Allow an open-market in which online and land-based operators can compete
- This will address needs of lotteries, others that need to develop online platforms
- Land-based operators would still possess clear advantages

Universal consideration for lawmakers

- Online policies will inevitably vary from state to state, and must be customized
- Type, size and location of existing land-based industry will be one key factor
- Tax rate is key policy consideration, regardless of which online policy is selected

Issues that must be considered

- Taxation
- Lotteries
- Exclusivity

Tax rate considerations

- New Jersey has online tax rate of 15%, roughly double land-based rate
- This creates clear incentive for land-based operators to encourage online players to visit properties
- Other states have significantly higher land-based rates, thus precluding that option
- Many states will likely be forced to tax online at lower rate than land-based operations

Fiscal viewpoint: Multiple revenue streams

- Regardless of model, tax rate, online must be viewed as part of multi-channel gaming, taking into account:
 - Online gaming revenue
 - Increased land-based revenue
 - Increased non-gaming spending
 - Sales tax
 - Entertainment tax
 - Potential for additional capital investment
 - Increased employment, payroll tax

Lotteries

- Potential competitors
- Potential allies



Land-based operators: natural beneficiaries, catalysts

- Proven marketing skills, databases
- Desirable assets
- Proven to advance public policy on numerous fronts:
 - Employment
 - Capital investment
 - Tourism promotion
 - Purchases of goods and services



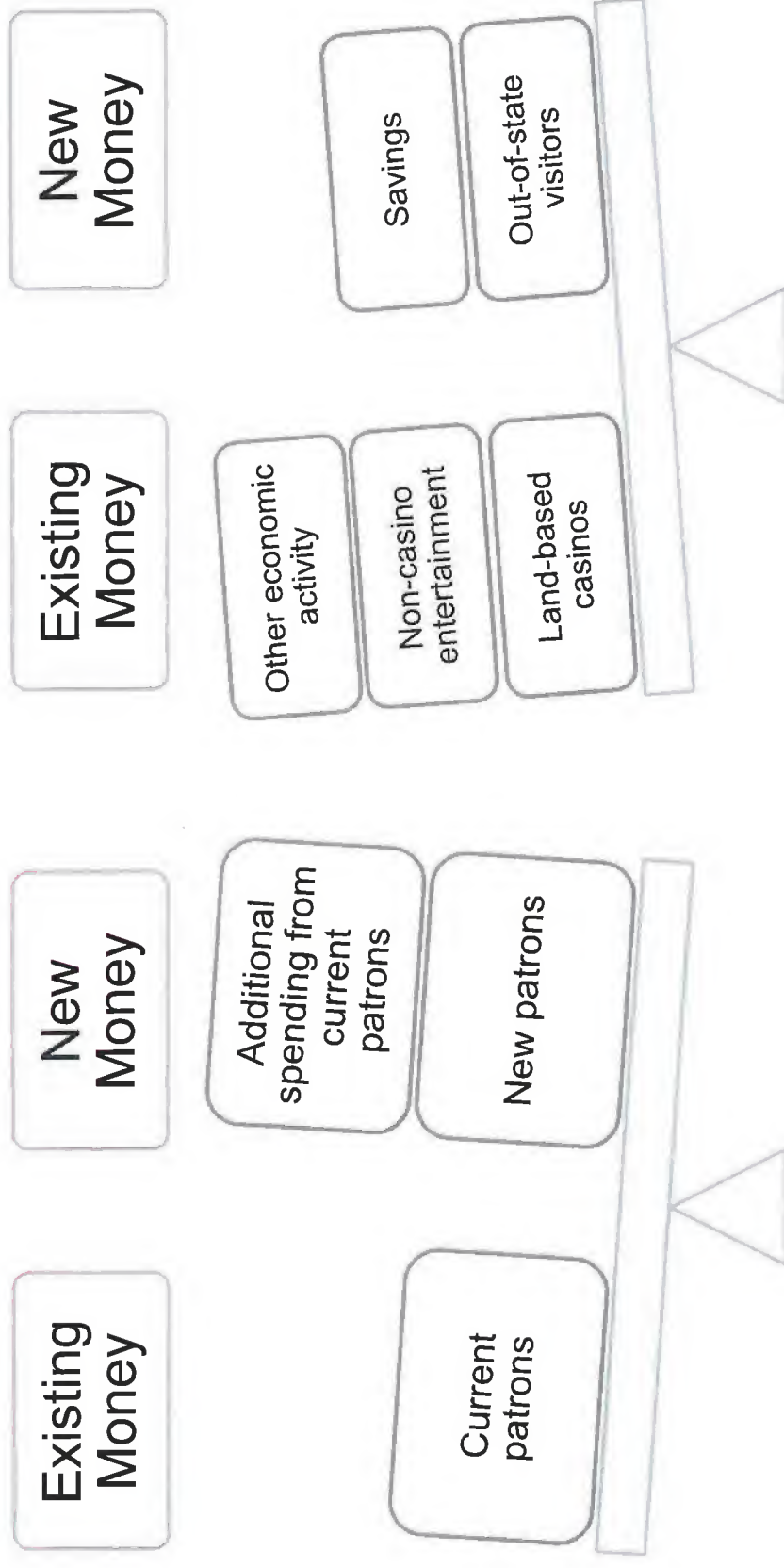
The unknown future

- Gaming's various elements will converge in unexpected, unprecedented ways:
 - Commercial and Indian gaming
 - Lotteries and land-based
 - Pari-mutuel
 - Suppliers, operators
 - New players
- New, unanticipated forms of gaming will emerge
- Similar issues, concerns will arise with sports wagering

Introduction

- The UMass Donahue Institute is the civic engagement arm of the UMass system. The Economic and Public Policy Research group is an economic, public policy, and demographics consulting team within UMDI.
- I'm Rod Motamedi, research manager at EPPR. My background is economic and policy impact modeling.
- What are the factors that determine effective economic modeling?

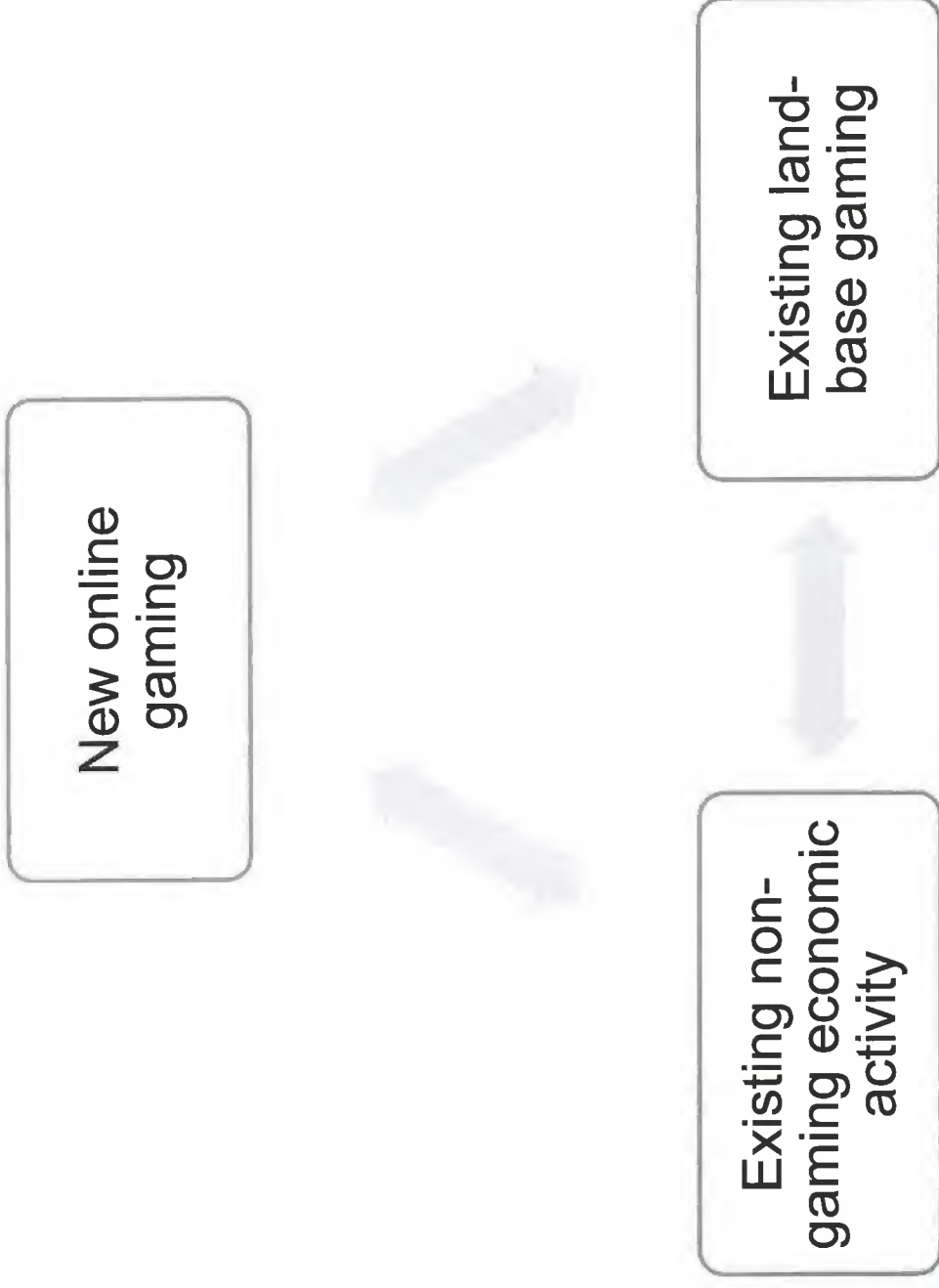
Net Monetary Flows of I-Gaming: Whose Point of View?



Land-based casinos

The state economy

Monetary Flows in the Economy



Sources of Economic Impacts

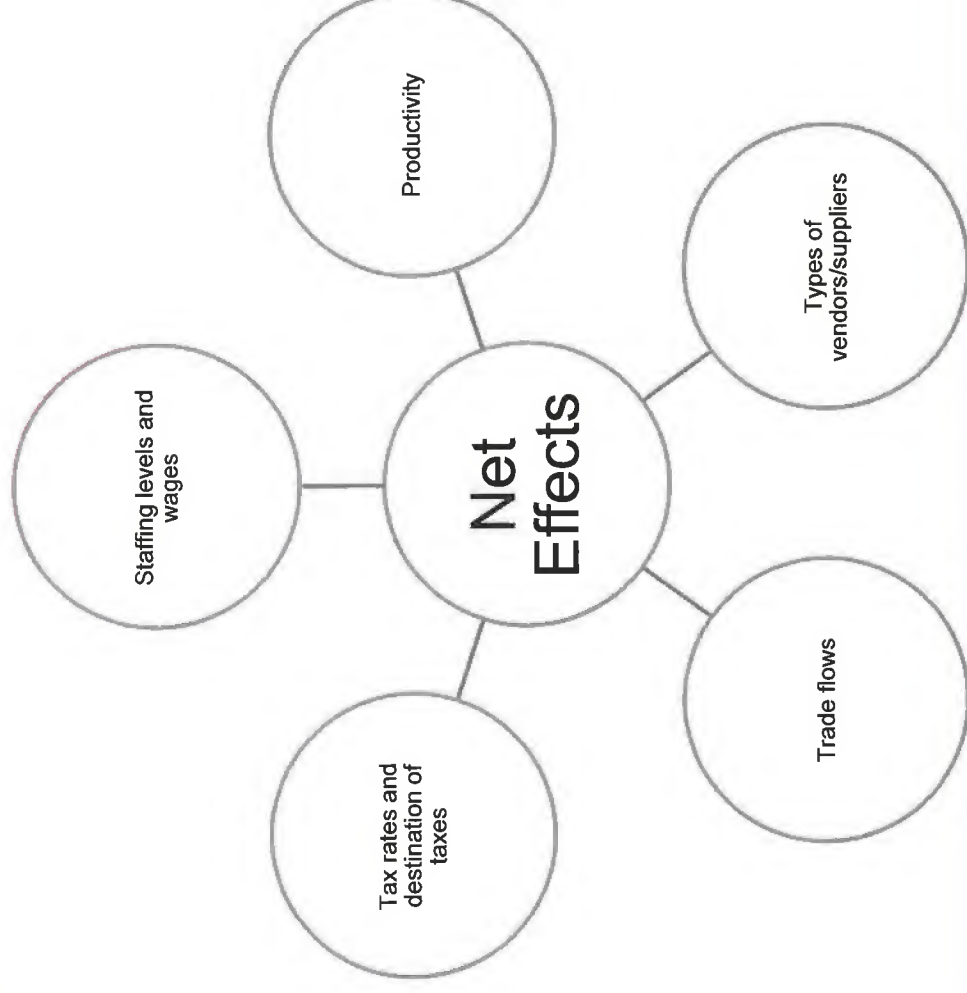
Direct hiring
and spending
by the business

- Employees
- Vendors/suppliers
- Taxes

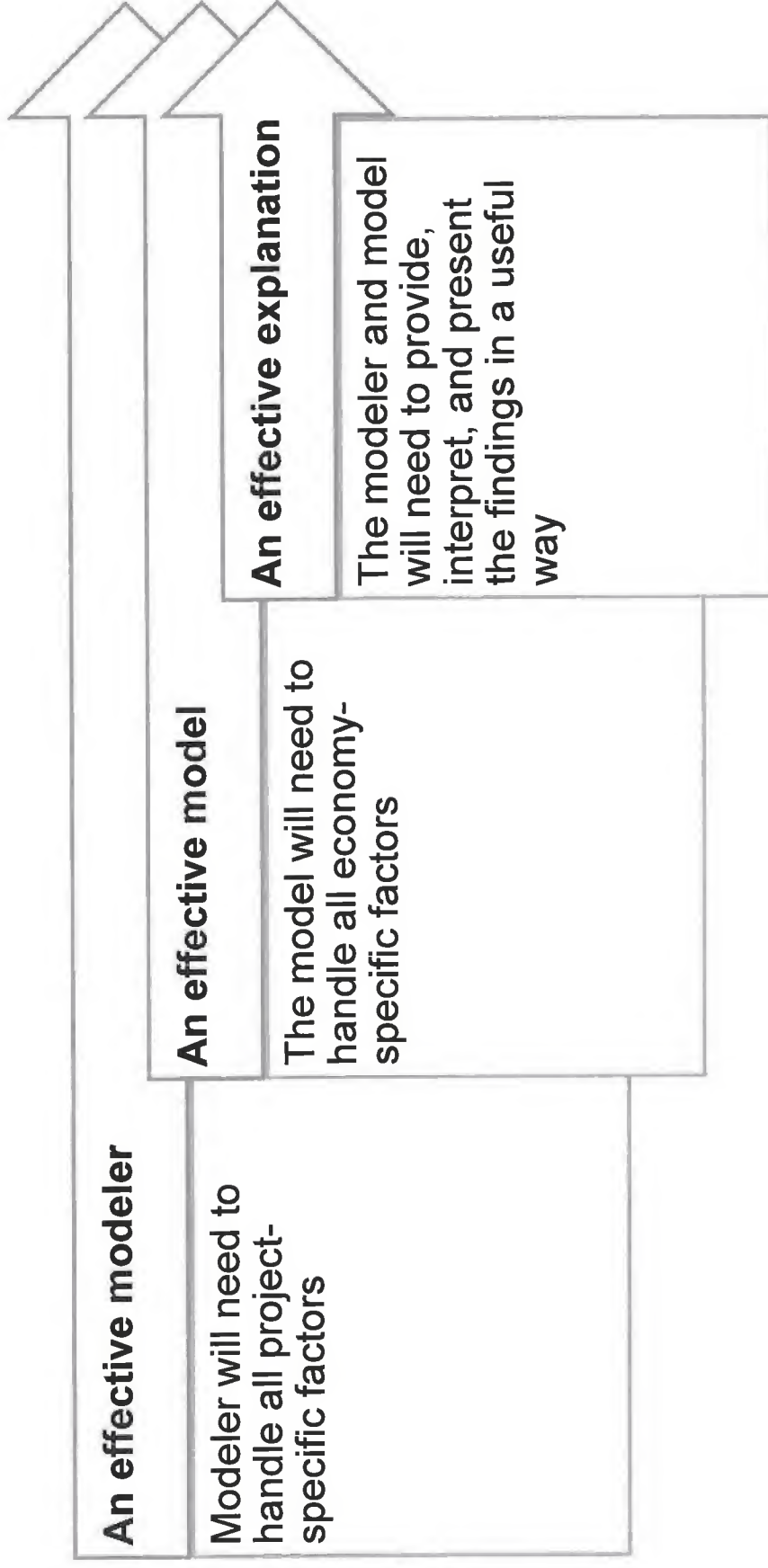
Spending by
recipients of
direct spending

- Employees' household spending
- Hiring and spending by vendors/suppliers
- Government spending

Factors that Influence Net Effects of Shifts in Spending



An Effective Economic Impact Analysis



UMass Donahue Institute
Economic & Public Policy Research
100 Venture Way, Suite 9
Hadley, MA 01035
(413) 545-0001
rmotamedi@donahue.umassp.edu
www.donahue.umassp.edu



Contact Us

Michael Pollock
Managing Director
Spectrum Gaming Group

1201 New Road, Suite 308
Linwood, NJ 08221 USA
+1 609 926 5100
pollock@spectrumgaming.com



Legislative Analysis



LAWFUL INTERNET GAMING ACT

Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 4311 as referred to second committee
Sponsor: Rep. Brandt Iden

Analysis available at
<http://www.legislature.mi.gov>

House Bill 4312 (H-2) as referred to second committee
Sponsor: Rep. Wendell Byrd

House Bill 4323 as referred to second committee
Sponsor: Rep. LaTanya Garrett

1st Committee: Regulatory Reform
2nd Committee: Ways and Means
Complete to 5-1-19

BRIEF SUMMARY: House Bill 4311 would create the Lawful Internet Gaming Act; allow internet gaming to be conducted in accordance with the new act; license various activities; create the Division of Internet Gaming in the Michigan Gaming Control Board (MGCB); impose a tax on the conduct of licensed internet gaming; create the Internet Gaming Fund; prohibit certain conduct; establish civil sanctions and criminal penalties for violations of the act; and authorize the promulgation of rules.

House Bill 4312 would place the maximum term of imprisonment for a felony violation of the Lawful Internet Gaming Act within the sentencing guidelines.

House Bill 4323 would exempt gambling conducted under the Lawful Internet Gaming Act from the provisions of the Michigan Penal Code.

Tie-bars: House Bill 4311 is tie-barred to HB 4308, House Bill 4312 is tie-barred to HBs 4311 and 4173, and House Bill 4323 is tie-barred to HB 4311. A bill cannot take effect unless the bill to which it is tie-barred is also enacted.

Effective date: Each bill would take effect 90 days after it is enacted.

FISCAL IMPACT: In general, the bills likely would result in a net reduction in revenues for state and local governments, including the City of Detroit, mainly due to the incentives produced by the lower tax rate on internet gaming adjusted gross receipts (AGR) and the revenue distribution differences between the internet gaming tax revenue and brick-and-mortar gaming tax revenue. See *Fiscal Information*, below, for a detailed fiscal analysis.

THE CONTENT OF THE BILLS:

House Bill 4311 would create the Lawful Internet Gaming Act, a description of which follows.

Definitions

The act provides definitions for numerous terms used throughout it. These include:

Authorized participant: An individual who is at least 21 years of age with a valid internet wagering account with an internet gaming operator.

Casino: A building or buildings in which gaming is lawfully conducted under the Michigan Gaming Control and Revenue Act (the initiated law voted on by Michigan electors which authorized the three Detroit casinos) or in which Class III gaming is conducted by an Indian tribe under a facility license issued in accordance with a tribal gaming ordinance approved by the chair of the National Indian Gaming Commission.

Internet gaming: Operating, conducting, or offering for play an internet game.

Internet game: A game of skill or chance offered for play through the internet in which a person wagers money or something of monetary value for the opportunity to win money or something of monetary value. Free plays or extended playing time won on a game of skill or chance would not be “something of monetary value.” The term would include gaming tournaments conducted via the internet in which persons compete in games authorized by the Division of Internet Gaming.

Internet gaming operator: A person issued an internet gaming license from the Division of Internet Gaming to conduct internet gaming or otherwise authorized to operate, conduct, or offer internet gaming.

Internet wagering: Risking money or something of monetary value on an internet game.

Internet wagering account: An electronic ledger in which deposits, withdrawals, internet wagers, monetary value of prizes, certain charges authorized by the authorized participant, and adjustments to the account are recorded.

Applicability of Act, Location of Operation/Equipment

The Lawful Internet Gaming Act would allow internet gaming only to the extent that it is conducted in accordance with the act. A law inconsistent with the act would not apply to internet gaming, and the act would not apply to lottery games offered by the Bureau of Lottery, Class II and Class III gaming conducted exclusively on Indian lands by a properly licensed Indian tribe, or a fantasy contest conducted under the Fantasy Contests Consumer Protection Act.

Under the act, an internet wager would be considered placed when received by the internet gaming operator, regardless of the location of the participant at the time the wager was placed. An internet wager received by an internet gaming licensee would be considered to be gambling or gaming conducted in the licensee’s casino, regardless of the authorized participant’s location at the time the wager was placed. The intermediate routing of electronic data in connection with internet wagering, including routing across state lines, would not determine the location or locations in which the wager is initiated, received, or otherwise made.

Aggregating computers or other internet access devices in order to enable multiple players to simultaneously play an internet game would be restricted to licensed internet gaming operators.

Division of Internet Gaming, Multijurisdictional Gaming, Sports Betting

The Division of Internet Gaming (“the Division”) would be established in the MGCB to administer, regulate, and enforce the system of internet gaming established by the act. The Division would have jurisdiction over licensees and could take enforcement action as provided in the act against an unlicensed person offering internet gaming in the state.

Under the act, the Division could enter into agreements with other jurisdictions, including Indian tribes, for multijurisdictional internet gaming by gaming licensees if consistent with state and federal law and for gaming conducted only in the United States. The Division could permit internet gaming operators to conduct internet wagering on amateur or professional sporting events or contests.

Internet Gaming License, Application and License Fees

An applicant for an internet gaming license would have to hold a casino license or be an Indian tribe that lawfully conducts Class III gaming under the required license. After receiving an application and application fee, the Division would have to issue a license if the internet gaming proposed by the applicant complied with the act and the applicant was otherwise eligible and suitable (with the burden on the applicant to establish suitability).

In determining whether an applicant is eligible and suitable, the Board could request and consider the financial situation of the applicant, historical compliance with casino-related licensing requirements, criminal history, or history of bankruptcy.

An application fee of \$100,000 would have to accompany the application. Departmental rules could allow for a refund of the fee, or a partial refund if not wholly expended in processing the application, and provide the circumstances under which a fee would be refunded.

An internet gaming license would be valid for five years and could be renewed for five-year periods. The initial license fee would be \$200,000 payable at the time the license is issued. The yearly fee would be \$100,000. Application and license fees would be deposited into the Internet Gaming Fund created by the act. An institutional investor (such as a financial institution or pension fund) holding less than 30% of the equity of an applicant would be exempt from licensure under the act.

Tribal Internet Gaming

A federally recognized tribe in Michigan could apply to the Division to conduct internet gaming and would have to include relevant information on its application, such as the name and location of its casinos, relevant tribal law and governing documents, and financial information.

Issuance, maintenance, and renewal of internet gaming licenses to tribal casinos would be based on all of the following:

- Compliance with the act and related rules.
- Adoption and maintenance of technical standards consistent with those adopted by the Division.
- Maintenance of a mechanism to determine that participants are at least 21 years old and in allowed jurisdictions.
- Adoption and maintenance of responsible gaming measures.
- Maintenance and operation of a casino operating Class III gaming and containing at least 50% of the gaming positions in place as of the act’s effective date.

- Timely payment of 8% of the gross gaming revenue received from internet gaming.
- Provision of internet gaming records for verification of the 8% amount upon request by the Division.
- Provision of a waiver of sovereign immunity to consent to the Division's jurisdiction for specified purposes, as well as to the exclusive jurisdiction of Michigan's court system (expressly waiving the exhaustion of tribal revenues).

Under the bill, the state (acting through the governor) would have to negotiate any amendments to a tribe's compact necessary to ensure compliance with the act and any applicable federal law upon request by any Indian tribe. If the governor failed to enter into negotiations or failed to negotiate in good faith, the tribe could initiate a cause of action against the governor in state or federal court.

The Division would have to exercise its limited direct regulatory and enforcement authority in a manner that is not arbitrary, capricious, or contradictory to the act. The act would only regulate internet gaming and would not extend to any further aspect of tribal gaming operations beyond those granted to the state under a compact with the tribe.

Internet Gaming Vendor and Gaming Platform Vendor Provider Licenses

An internet gaming vendor would be a person providing to an internet gaming operator goods, software, or services that directly affect the wagering, play, and results of authorized internet games. Only a person licensed under the act could provide goods, software, or services as an internet gaming vendor to an internet gaming operator.

A provisional license would be available to enable the applicant for a vendor license to conduct business with an internet gaming operator or applicant before receiving a vendor's license. The provisional license would expire on the date listed.

A vendor license would be valid for five years and would be renewable for additional five-year periods if eligibility and suitability standards continued to be met. Applications would be made on forms provided by the Division and would have to include certain information specified in the act, such as financial information regarding the applicant.

A nonrefundable fee to be determined by the Division (but not to exceed \$5,000) would have to accompany the application with a fee of \$5,000 payable upon issuance of a license. The annual fee would be \$2,500.

An internet gaming platform provider would pay a license fee of \$100,000 at the time of issuance of the license and \$50,000 each year after that. [Note: ***Internet gaming platform provider*** is not defined in the act, nor are any requirements specified. The act defines ***internet gaming platform*** to mean an integrated system of hardware, software, and servers through which an internet gaming operator operates, conducts, or offers internet gaming.]

Application and license fees, taxes, and payments would be deposited into the Internet Gaming Fund created under the act. Information included with the application and records pertaining to the application process would be confidential and not subject to the Freedom of Information Act (FOIA). An institutional investor holding less than 30% of the equity of an applicant would be exempt from licensure under the act.

Jurisdiction of the Division, Civil Fines, Civil Remedies

The Division would have jurisdiction over and responsibility to supervise all internet gaming operations governed by the act. The Division could do the following to effectuate the act:

- Develop qualifications, standards, and procedures for approval and licensure of internet gaming operators and gaming vendors. [Note: internet gaming platform provider licensee is not mentioned here.]
- Conduct hearings pertaining to violations of the act or rules.
- Develop and enforce testing and auditing requirements for internet gaming platforms, internet wagering, and internet wagering accounts.
- Develop and administer civil fines (not to exceed \$5,000 per violation) for internet gaming operators and internet gaming vendor licensees that violate the act or departmental rules.

The Division could investigate, issue cease and desist orders, and obtain injunctive relief against a person that is not licensed and that is offering internet gaming in the state. Information, records, interviews, reports, and other data supplied to or used by the Division in the course of an investigation of a licensee would be confidential and not be subject to FOIA.

Rule Promulgation

Within one year after the act took effect, the Division would be required to promulgate rules governing the licensing, administration, and conduct of internet gaming necessary to carry out the act. The rules could only include things expressly authorized by the act, including the following:

- Types of internet games to be offered; poker, blackjack, cards, slots, and other games typically offered at a casino must be offered.
- Qualifications, standards, and procedures for approval and licensure of internet gaming licensees and internet gaming vendor operators.
- Requirements to ensure responsible gaming.
- Technical and financial standards for internet wagering, wagering accounts, and internet gaming platforms, systems, and software or other electronic components for internet gaming.
- Procedures for conducting contested case hearings.
- Requirements for multijurisdictional agreements entered into with other jurisdictions. These would include qualifications, standards, and procedures for approval of internet gaming vendors providing internet gaming platforms in connection with the agreement.
- Procedures and requirements for the acceptance, by an internet gaming operator, of internet wagers initiated or otherwise made by persons in other jurisdictions, if the Division authorized multijurisdictional gaming.

Age Verification Requirements, Requirements of Internet Gaming Operators

An internet gaming operator have to provide one or more mechanisms on the gaming platform it uses that are designed to:

- Reasonably verify that an authorized participant is at least 21 years of age. An individual would have to satisfy the verification requirements in order to establish an internet gaming account or to make an internet wager on an internet game.
- Limit internet wagering to transactions that are initiated and received or otherwise made by an authorized participant located in Michigan or a jurisdiction in the United States in which internet gaming is legal.
- Detect and prevent the unauthorized use of internet wagering accounts, and detect and prevent fraud, money laundering, and collusion.

An internet gaming operator could not knowingly authorize an individual less than 21 years old or an individual whose name appears in the responsible gaming database created under the act to establish an internet gaming account or knowingly allow them to wager on internet games offered by the licensee—unless required and authorized by the Division for testing purposes or to otherwise fulfill the purposes of the act.

Responsible Gaming Database, Posting of Compulsive Gambling Hotline

The Division could develop responsible gaming measures, including a statewide responsible gaming database that would identify individuals who are prohibited from establishing an internet wagering account or participating in internet gaming offered by an internet gaming operator. An individual's name could be placed in the database if any of the following apply to the individual:

- He or she has been convicted in any jurisdiction of a felony, a crime of moral turpitude, or a crime involving gaming.
- He or she has violated the act or another gaming-related act.
- He or she has performed an act, or has a notorious or unsavory reputation, such that his or her participation in internet gaming under the act would adversely affect public confidence and trust in internet gaming.
- His or her name is on a valid and current exclusion list maintained by Michigan or another U.S. jurisdiction.

Names of individuals to be included on the list could be provided by an internet gaming operator in a format specified by the Division.

The number of the toll-free compulsive gambling hotline maintained by the state would have to be displayed in a clear, conspicuous, and accessible manner on the internet gaming platform used by an internet gaming operator. Also, responsible services and technical controls would have to be offered to authorized participants. This would consist of both temporary and permanent self-exclusion for all internet games offered and the ability for authorized participants to establish their own periodic deposit and internet wagering limits and maximum playing times.

A participant could voluntarily prohibit himself or herself from establishing an internet wagering account with an operator. The voluntary self-exclusion list could be incorporated into the responsible gaming database and both be maintained by the Division in a confidential manner. Both lists would be exempt from disclosure under FOIA.

Prohibited Conduct, Criminal Penalties

The act would prohibit a person from doing any of the following:

- Offering internet gaming for play if not an internet gaming operator (except if exempt as a lottery game, tribal casino, or fantasy contest). This would be a felony punishable by imprisonment for up to 10 years or a fine of up to \$100,000, or both.
- Knowingly making a false statement on an application for a license issued under the act.
- Knowingly providing false testimony to MGCB or its authorized representative while under oath.

A license could not be issued to a person that committed a listed violation. An action to prosecute a violation could be brought by the attorney general or a county prosecuting attorney

in the county in which the violation occurred or in Ingham County, at either of the officials' discretion.

Gross Gaming Revenue Tax, Allocation of Tax

An internet gaming licensee would be subject to an 8% tax on the gross gaming revenue from internet gaming conducted under the act, payable monthly. No other tax, payment, or fee could be imposed on an internet gaming operator for internet gaming.

The tax would have to be allocated as follows:

- 30% to the city in which the internet gaming licensee's casino is located, for use in that city in connection with the following:
 - Hiring, training, and deployment of street patrol officers.
 - Neighborhood and downtown economic development programs designed to create jobs, with a focus on blighted neighborhoods.
 - Public safety programs such as emergency medical services, fire department programs, and street lighting.
 - Anti-gang and youth development programs.
 - Other programs designed to contribute to the improvement of the quality of life.
 - Relief to the taxpayers of the city from one or more taxes or fees imposed by the city.
 - Costs of capital improvements.
 - Road repairs and improvements.
- 55% to the state to be deposited into the Internet Gaming Fund.
- 5% to be deposited in the state School Aid Fund.
- 5% to be deposited in the Michigan Transportation Fund.
- 5% to the Michigan Agricultural Equine Industry Development Fund. (However, if that amount exceeded \$3 million in a fiscal year, the excess would have to be deposited in the Internet Gaming Fund.)

If the combined total of the 30% allocated to the city and the wagering tax under the Michigan Gaming Control and Revenue Act were less than \$179 million, the Board would have to distribute to the city from the fund an amount equal to the difference between \$179 million and the amount received by the city in the previous year. This would have to take place by December 31, 2020, and each December 31 thereafter. However, the total amount under the 30% allocation and this dispersal could not be more than 55% of the total tax imposed under this section in the fiscal year.

Internet Gaming Fund

The Internet Gaming Fund would be created in the treasury. Money or assets required to be paid into the fund or received from any other sources would be received by the state treasurer. Interest and earnings from fund investments would be credited to the fund. MGCB would be the administrator for auditing purposes. MGCB would be required to expend money from the Fund, on appropriation, for its costs of regulating and enforcing internet gaming under the act, as well as \$1.0 million to the Compulsive Gaming Prevention Fund.

Of the 8% gross gaming revenue (under section 7(1)(f) of the bill), 75% of the payments would have to be deposited into the Internet Gaming Fund, with the remaining 25% deposited into the Michigan Strategic Fund.

House Bill 4312 would amend the Code of Criminal Procedure to specify that internet gaming offenses under Section 13 of the proposed new Lawful Internet Gaming Act would be a Class D felony against the public order punishable by a maximum term of imprisonment of 10 years. Additionally, Bingo—false statements would be a Class G felony against the public trust punishable by a maximum term of imprisonment of 2 years.

MCL 777.14d

House Bill 4323 would add a new section to the Michigan Penal Code to specify that Chapter 44 (Gambling) would not apply to gambling conducted under the proposed Lawful Internet Gaming Act.

Proposed MCL 750.310d

BACKGROUND INFORMATION:

House Bills 4311, 4312, and 4323 are part of a series of reintroduced bills regarding gaming regulation in Michigan. The bills' counterparts in the 2017-18 legislative session—House Bills 4926, 4928, and 4927, respectively—were passed by the House and Senate but vetoed by the governor. In his veto message,¹ Governor Snyder cited unknown budgetary concerns and a desire for more careful study of the issue.

FISCAL INFORMATION:

In general, the bills likely would result in a net reduction in revenues for state and local governments, including the City of Detroit, mainly due to the incentives produced by the lower tax rate on internet gaming adjusted gross receipts (AGR) and the revenue distribution differences between the internet gaming tax revenue and brick-and-mortar gaming tax revenue.

Determining a fiscal impact is difficult in both scope and magnitude due to the financial, legal, and tax structure of the Michigan gaming industry; the dynamic interplay between the different types of gaming offered in Michigan (commercial casinos, tribal casinos, and a state-run lottery); and the relatively small sample size of states that have legalized internet casino gaming (Delaware [2012], Nevada [2013], and New Jersey [2013]). Additionally, casino revenues are affected by economic conditions, societal trends, expansion of gaming in other states, and the offering of alternative gaming opportunities, all of which make differentiating between correlation and causation when reviewing other states difficult.

New Jersey's online gaming market is structured most similarly to the proposed online gaming market under this bill. However, there are notable differences that limit its usefulness as a direct comparable for Michigan's gaming market. While Michigan's population is almost one million greater than New Jersey's, New Jersey has a per capita personal income that is 40% greater than Michigan's. In addition, population demographics and the dependence on tourism as a source of business for casino gaming diminish the value of direct comparisons.

For purposes of this analysis, the most notable difference is that New Jersey licensees pay a higher tax rate (15%) on internet gaming AGR than brick-and-mortar AGR (8%), while under

¹https://content.govdelivery.com/attachments/MIGOV/2018/12/28/file_attachments/1130293/Veto%20Letter%204926%20-%204928.pdf

the provisions of this bill Michigan licensees would pay a lower tax rate of 8% on internet gaming AGR (minus the monetary value of free play) than brick-and-mortar casino AGR, where the effective rate exceeds 19%.² In Michigan, the commercial casinos in Detroit would have a strong incentive to promote internet gaming at the expense of brick-and-mortar casino gaming because AGR received from internet wagering would be levied a tax rate significantly lower than AGR from the brick-and-mortar facility.

The scope and magnitude of the fiscal impact would depend on whether online gaming had a substitution, neutral, or stimulative effect on other forms of gaming. All of these factors are discussed in more detail below.

As background, in 2018 AGR from New Jersey internet gaming totaled approximately \$300.0 million, which represented 10% of the overall casino gaming market (based on AGR). Assuming that internet gaming AGR comprises approximately 12% of the total amount wagered, roughly \$2.5 billion was wagered online in New Jersey in 2018.

The narrative below assumes a mature market and does not represent short term changes immediately following the adoption of the bill's provisions.

State School Aid Fund

The State School Aid Fund (SAF) likely would realize reduced revenues under House Bill 4311. Currently, a wagering tax of 19% is levied on casino AGR. Of that amount, 42.6% (\$0.081) is distributed to the SAF. Under the bill, internet gaming AGR would be taxed at a rate of 8%, with 5% (\$0.004) of the tax revenues deposited in the SAF. Therefore, every dollar of AGR lost at brick-and-mortar casinos due to internet gaming would result in a \$0.077 loss to the SAF.

The reduction in revenues would be directly related to the substitutive effect internet gaming would have on brick-and-mortar casinos. Any net new wagering from online gaming would offset a portion of the losses due to the substitution effect of online gaming.

Table 1 provides this information another way. The table shows how much internet wagering would need to occur to hold the SAF harmless at various brick-and-mortar wagering loss scenarios.

Table 1
Internet Wagering Needed to Hold School Aid Fund Harmless at Various Brick-and-Mortar Casino Wagering Loss Scenarios

<u>% Wagering Loss at Detroit Casinos</u>	<u>SAF Loss</u>	<u>Internet Wagering Required for SAF Hold Harmless</u>
1%	\$1,169,721	\$2,436,918,384
5%	5,848,604	12,184,591,919
10%	11,697,208	24,369,183,838
15%	17,545,812	36,553,775,757

Note: Based on 2018 MGC B AGR data for Detroit Commercial Casinos; assumes AGR comprises 12% of total wagering.

² In addition to the 19% wagering tax on adjusted gross receipts, the Detroit casinos pay a municipal services fee and development agreement payment based on adjusted gross receipts.

Internet gaming also could reduce lottery sales, mainly by diverting participants from the iLottery platform or instant ticket sales, because many of the games offered could be considered substantially similar from a user perspective. Payouts for individuals playing casino-operated games would be higher. Higher payout rates likely would lead to increased internet gaming play at the expense of iLottery and instant ticket play. Lottery AGR (net revenue) is deposited in the SAF. Therefore, any diminishment in lottery sales from the introduction of online gaming would result in lower SAF transfers from the Bureau of State Lottery. In 2017 net revenues from iLottery totaled \$80.0 million. Based on net revenues totaling 12% of total sales for iLottery games and 27% of total sales for instant ticket games, every dollar of wagering iLottery lost to internet gaming would require \$250 of internet wagering to hold the SAF harmless. Every dollar of instant ticket sales lost to internet gaming would require approximately \$550 of internet wagering to hold the SAF harmless.

Even if no substitution effect were assumed and online gaming had a neutral or stimulative effect on brick-and-mortar casino revenues, the SAF could still realize a decrease in dedicated revenues due to a loss in iLottery revenues. However, the lower tax rate for online gaming likely would result in the Detroit casinos promoting online gaming at the expense of brick-and-mortar gaming. The strength of this incentive would be affected by any expected non-gaming revenue a casino expected from brick-and-mortar casino patrons.

City of Detroit Revenues

The City of Detroit (“City”) likely would realize reduced revenues under House Bill 4311. Currently, a wagering tax of 19% is levied on casino AGR. Of that amount, 57.4% (\$0.109) is distributed to the City. In 2018, the City received approximately \$157.4 million from the casino wagering tax. Under the bill, internet gaming AGR would be taxed at a rate of 8%, with 30% (\$0.024) of the tax revenues allocated to the City. Therefore, every dollar of AGR lost at brick-and-mortar casinos due to internet gaming would result in a \$0.085 loss to the City.

Table 2 provides this information another way. The table shows how much internet wagering would need to occur to hold the City wagering tax revenues harmless at various AGR loss scenarios.

Table 2
Internet Wagering Needed to Hold the City of Detroit Harmless at Various Brick-and-Mortar Casino Wagering Loss Scenarios

<u>% Wagering Loss at Detroit Casinos</u>	<u>City of Detroit Revenue Loss</u>	<u>Internet Wagering Needed for City of Detroit Hold Harmless</u>
1%	\$1,574,069	\$546,551,654
5%	7,870,344	2,732,758,270
10%	15,740,688	5,465,516,540
15%	23,611,031	8,198,274,810

Note: Based on 2018 MGCB AGR data for Detroit Commercial Casinos; assumes AGR comprises 12% of total wagering.

It should be noted that if the impact on brick-and-mortar casino revenue were relatively neutral or stimulative, the City would realize increased revenues. The magnitude of the increase would depend on AGR from online gaming and a combination of the effective tax rate and any new revenues directly attributable to enhanced brick-and-mortar play due to online gaming.

However, the commercial casinos in Detroit would have an incentive to promote online gaming at the expense of brick-and-mortar play due to the lower tax rate of online gaming. As noted above, the strength of this incentive would be affected by any non-gaming revenue a casino expected from brick-and-mortar casino patrons.

The bill includes a specified tax revenue minimum of \$179.0 million for the City. If the City failed to generate \$179.0 million from its wagering tax distribution and internet gaming distribution, MGCB would be required to distribute the difference from the Internet Gaming Fund. The amount of revenue the City received from its internet gaming tax and additional Internet Gaming Fund distribution could not exceed 55% of the total internet gaming tax imposed in the fiscal year. Whether or not the floor could be satisfied in any given year would be a function of combined revenues from the wagering taxes and available revenues in the Internet Gaming Fund.

As written, the calculation for the \$179.0 million fails to include the development agreement revenues and the additional 1% wagering tax dedicated to Detroit under section 12(7) of the Michigan Gaming Control and Revenue Act, 1997 PA 69, MCL 432.212. Therefore, it is possible that the Internet Gaming Fund would have to allocate funds to the City to make up the calculated shortfall even in a scenario where there was no substitution effect and the internet gaming taxes were considered entirely new revenue.

Tribal Gaming – Payments to the State of Michigan

Tribal casino payments to the State of Michigan under the Tribal-State Compacts are made directly to the Michigan Strategic Fund and Michigan Economic Development Corporation (MSF/MEDC). Any fiscal impact would depend on the negotiated terms related to online gaming revenue sharing payments and the decisions made regarding revenue sharing payments to the state. Of the 12 tribes, 6 tribes do not currently make revenue sharing payments to the state. The other 6 tribes pay between 4% and 12% of net win. Payments to MSF/MEDC totaled \$57.3 million in 2017.

If the tribes that currently do not make revenue sharing payments to the state negotiate a revenue sharing agreement for online gaming, the state would realize increased revenues. However, the magnitude and purpose of those revenues for the state would depend on the terms of the negotiated compact.

Any fiscal impact related to tribes that currently make revenue sharing payments to the state would depend on the percentage of the online gaming payment agreed upon and the substitution effect of online gaming versus brick-and-mortar casino gaming.

Alternatively, tribal casinos that currently make revenue sharing payments to MSF/MEDC could choose to withhold payments if they deemed online gaming to be an expansion of gaming. Each tribe would have to determine whether revenues generated from online gaming would exceed revenues saved from withholding state payments.

It is not known how much of the internet gaming market tribal casinos could acquire. Increased internet gaming market share could further reduce SAF and City revenues.

Tribal Gaming – Payments to Local Units of Government

The provisions of the bill likely would result in reduced tribal casino payments to local units of government by an unknown amount. Any fiscal impact would depend on the substitution

effect. All tribal casinos make payments equal to 2% of net win to local units of government in their defined regional area. These payments totaled \$29.7 million in 2017. These payments cannot be withheld for an expansion of gaming violation of the Tribal-State Compacts. From the 8% tax rate levied on internet gaming offered by the tribal casinos, 75% must be allocated in the Internet Gaming Fund and 25% must be allocated to the Michigan Strategic Fund.

Michigan Transportation Fund

The bill would increase revenues to the Michigan Transportation Fund (MTF) by an unknown amount. The bill directs that 5% of the tax revenues received be deposited in the MTF established in section 10 of 1951 PA 51 ("Act 51") to be distributed in accordance with the provisions of section 10(1)(l) of Act 51. The MTF is the primary collection and distribution fund for state restricted transportation revenue. The Act 51 distribution provisions referenced in the bill provide for the distribution of net MTF revenue as follows: 39.1% to the State Trunkline Fund (STF); 39.1% to county road commissions; 21.8% to cities and villages.

As provided by section 11 of Act 51, the STF is used for construction and preservation of the state trunkline highway system as well as administration of the Michigan Department of Transportation. The MTF distributions to county road commissions and to cities and villages are used primarily for the preservation of local road systems as provided by sections 12 and 13 of Act 51.

The amount of internet gaming tax revenue that would be credited to the MTF would depend on the total internet gaming tax revenue generated, which in turn would depend on adjusted gross receipts identified and taxed from online gaming.

Administration and Enforcement

The bill would create a new division within the Michigan Gaming Control Board. This would increase costs associated with staffing, office space, information technology, and other administrative, enforcement, audit, and regulatory costs. The extent of these costs is unknown. However, the bill would authorize the licensing and application fees levied on internet gaming licensees and vendors to be used to cover administrative expenses. In addition, 55% of the funds collected under the internet gaming tax is deposited in the Internet Gaming Fund in part for regulation and enforcement. Presumably, the funds collected and allocated for administration under the bill would be sufficient to cover necessary expenses related to administration and enforcement of the provisions of the bill.

Compulsive Gaming Prevention Fund

The bill would increase revenues for the Compulsive Gaming Prevention Fund by \$1.0 million annually due to the required deposit from the Internet Gaming Fund created under the bill.

Impact on the Judiciary and/or State and Local Corrections

The bill would have an indeterminate fiscal impact on the state's correctional system and on local court systems. Information is not available on the number of persons who might be convicted under provisions of the bill. New felony convictions would result in increased costs related to state prisons and state probation supervision. In fiscal year 2018, the average cost of prison incarceration in a state facility was roughly \$38,000 per prisoner, a figure that includes various fixed administrative and operational costs. State costs for parole and felony probation supervision averaged about \$3,700 per supervised offender in the same year.

Civil fines would increase revenues going to the state Justice System Fund, which supports the Legislative Retirement System, the Departments of State Police, Corrections, Health and Human Services, and Treasury, and various justice-related endeavors in the judicial branch.

The fiscal impact on local court systems would depend on how provisions of the bill affected caseloads and related administrative costs. Any increase in penal fine revenues would increase funding for local libraries, which are the constitutionally designated recipients of those revenues.

POSITIONS:

A representative of Greektown Casino testified in support of the bills. (3-12-19)

Representatives of the following organizations testified in support of House Bill 4311 (3-12-19):

- Fan Duel and Draft Kings
- MGM Grand Detroit
- GEOComply
- The Stars Group

The following organizations indicated support for the bills (3-12-19):

- Michigan Gaming Control Board
- Michigan Thoroughbred Owners and Breeders Association
- Michigan Chamber of Commerce
- City of Detroit

The following organizations indicated support for House Bills 4311 and 4312 (3-12-19):

- Gun Lake Tribe
- Pokagon Band of Potawatomi

iDEA Growth (iDevelopment and Economic Association) indicated support for House Bill 4311. (3-12-19)

MGM Grand Detroit indicated support for House Bill 4312. (3-12-19)

The Coalition to Stop Internet Gaming indicated opposition to House Bill 4311. (3-12-19)

Legislative Analysts: Jenny McInerney
Susan Stutzky

Fiscal Analysts: Ben Gielczyk
William E. Hamilton
Robin Risko

■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.